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SUBJECT: AS BC POSITIONS TO BECOME A CLEAN ENERGY LEADER, CRITICAL  
POLICY GAPS REMAIN

11. Summary: Stakeholders in British Columbia's electricity sector are finally beginning to see some clarity in the BC government's approach to the procurement and possible export of electricity in the province. The independent regulator, the British Columbia Utilities Commission (BCUC), sent shock waves through the industry in July, issuing a controversial ruling rejecting several major premises of provincial Crown-owned BC Hydro's Long Term Acquisition Plan, including the mandate for purchasing green renewable power over traditional natural gas and large hydro projects. In October and November, the administration of BC Premier Gordon Campbell responded, issuing a Special Direction effectively sidelining the aging natural gas generation plant in question and striking four Green Energy Advisory Task Forces to provide further guidance. Critical gaps remain in BC's electricity policy, including a clear export policy and clarification on private power procurement practices. In the long run, however, Campbell's administration is pressing forward with a strong mandate for independent renewable power for both domestic consumption and export to the U.S. End Summary.

## Background

12. BC Hydro is the dominant player in the generation, domestic sales and export of electricity for British Columbia. As directed by Campbell's administration in 2002 and reaffirmed in its 2007 BC Energy Plan, BC Hydro must procure all new generation (with the exception of one possible future source - the Site C dam on the Peace River) from Independent Power Producers (IPPs) using renewable sources, such as wind and water. Ninety percent of the electricity generated in the province emits no greenhouse gases (GHGs), and the administration has mandated via the Energy Plan that it remain this way. All new generation must be GHG net neutral, and coal and nuclear generation are prohibited for the foreseeable future. The province must be "self-sufficient" in energy production by 2016, with the ultimate goal of becoming a consistent power exporter.

## BCUC Says "No" to Private Renewable Power

3.(SBU) Against this backdrop, in its July ruling, the BCUC rejected BC Hydro's heavy reliance (up to 72%) on Demand Side Management (DSM)(conservation measures by BC Hydro customers via various incentive and penalty programs) as being unrealistic, and declining to endorse BC Hydro's estimates for purchasing IPP renewable power to meet government's self-sufficiency standard. Because the BCUC was unconvinced by BC Hydro's argument for DSM to achieve self-sufficiency, it directed the utility to use the aging and GHG-emitting 900 megawatt (MW) Burrard Thermal natural gas power plant located in Metro Vancouver (at present only used for

emergency backup, at ten percent or less of its capacity annually) to meet power consumption marks. The BCUC justified its ruling on the basis of cost and reliability, arguing that acquisition of power from Burrard was cheaper and more reliable than using the IPPs (particularly given the higher price and attrition rate of previous IPP projects). In doing so, it appeared to ignore environmental concerns and goals outlined in the BC Energy Plan. The July ruling was interpreted by most stakeholders as a challenge to the government's policy on procurement of additional renewable power from private producers. The ruling also jeopardized the much-delayed results of BC Hydro's "Clean Power Call" - its request for proposals (RFP) from the IPPs. The impact of the ruling on the industry was immediate. Publicly listed IPPs experienced sharp declines in their stock values. One IPP President told us his stock has declined 40% since the BCUC decision was announced in July. Prior to the BCUC decision, the IPPs had become a favourite of investors looking to enter the clean energy market. Companies such as U.S.-based General Electric have invested significant funds in burgeoning IPPs in BC since 2008.

14. Analysts also suggest that the decision points to incomplete policymaking on the part of the BC government in its directives to the BCUC. They note that the Campbell administration is struggling with setting appropriate guidelines for the independent regulator, which should be considering power procurement decisions on the basis of broader criteria than the traditional economic efficiency model of low cost and reliability of sources. In jurisdictions

where renewable power is a policy priority, green attributes are beginning to matter at least as much as reliability and low cost. The critics argue that unless regulators have their decision criteria re-aligned through legislation or special orders, disconnects will continue to occur between government policy and regulatory action.

#### BC Pushing Ahead with Clean Power Call

15. The BC government undertook several actions throughout the fall of 2009 to mitigate the effects of the BCUC decision and get its green Energy Plan back on track. In late October the Minister for Energy, Mines and Petroleum Resources, Blair Lekstrom, issued a Special Direction to the BCUC, clearly signalling the BC government's intent to end reliance on the Burrard Thermal plant. This in turn clears the way for BC Hydro to continue with its Clean Power Call for up to 6,000 gigawatt hours (GWh) of renewable power (1,000 GWh of which is expected from bioenergy). The much-delayed call (results were expected in June 2009), has re-started, with a more limited pool of proposals. The utility has dropped 21 of the 68 proposals initially submitted, accepted another 13 to move forward, and invited 34 proponents to sharpen their pencils and re-submit proposals to make them "more cost-effective". This move has reassured some ratepayers with an interest in continuing to pay among the lowest electricity rates in North America, while some IPP project proponents feel that they are taking a loss by having to re-quote at lower price levels. One IPP contact told us that the high rate of project failures seen in earlier calls suggests that the lowest-cost project is not necessarily a more viable project.

16. In other actions, the BC Premier announced the formation of four Green Energy Advisory Task Forces, to incorporate expert opinions on BC energy policy in the following areas:

a. Procurement and Regulatory Reform - will recommend improvements to BC Hydro's procurement and regulatory regimes, particularly concerning the promotion of clean and cost-effective power generation.

b. Carbon Pricing, Trading and Export Market Development - recommending ways to advance BC's interest in national or international cap & trade system(s), and to maximise the value of BC's green-energy attributes in power generation, domestic distribution and trading.

c. Community Engagement and First Nations Partnerships - will recommend ways to ensure First Nations and communities benefit from renewable electricity generation, and have the opportunity for input into project development in their regions.

d. Resource Development - will identify impediments to and best practices for planning and permitting renewable generation in an environmentally sustainable way, and will work with clean energy sectors (including for forest fibre) to enhance competitiveness.

Most stakeholders view these task forces, which have been given a very short time frame to deliberate and report (second week of January 2010), as a tool to help close some of the policy gaps and give rubber stamps for the Campbell administration's policies.

17. (SBU) Commentary: The BC government has brought the turmoil of the BCUC decision on itself, providing inadequate guidance to the regulators on evaluating future power sources in light of GHG and climate change concerns, and more generally neglecting strategic policymaking on resource procurement and distribution/export. There is certainly much more to come with the results of the task forces' reports, although it is unclear whether these will be made public. However it likely that an updated Energy Plan is forthcoming. With such a short time frame, and given the composition of the task forces, it is safe to guess that their conclusions and recommendations are pre-ordained. On the input side, confidential readouts from our contacts suggest that the relevant task force will recommend feed-in tariffs for IPP renewable energy, as was recently legislated in Ontario (which bills itself as the first North American jurisdiction to do so). Feed-in tariffs set a guaranteed price paid by the utility for

renewable power (set higher than the market rate), typically combined with ensured access to the electricity grid. On the output side, there will more than likely be an overt export policy. IPPs are calling for it, and have calculated that there will be too much power procured for merely domestic consumption. Further, their business cases are premised on profits from eventual exports. It remains to be seen, however, if the domestic constituency will support the BC government's plan of becoming a major power exporter, particularly if it means paying higher electrical bills at home to tap into all that renewable energy from the IPPs. BC also faces other hurdles in becoming a net power exporter, including aging transmission infrastructure and U.S. regulations. We will report in later cables on the outcome of the task forces' reports and BC's power export challenges. In particular, we will report on whether BC follows Ontario's domestic input content requirement for its feed-in tariff. End Comment.

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